

Effects of Competitive Advantage on Companies Superiority in the Global Market

¹Iman Ghasemi, ²Ehsan Abdi, ³Omid Yaghmaei, and ⁴Ruhollah Nemati

¹*Faculty of Management, Universiti Teknologi Malaysia (UTM), International Campus, Kuala Lumpur, Malaysia

²Department of Applied Mathematics, School of Mathematics, Iran University of Science and Technology, Tehran, Iran

³International Business School, Universiti Teknologi Malaysia (UTM), International Campus, Kuala Lumpur, Malaysia

⁴Department of Gas Engineering, School of Chemical, Petroleum and Gas Engineering, Shiraz University, Shiraz Iran

*Correspondence: Iman Ghasemi (Email: mani_sengani@yahoo.com)

Keywords: Competitive Advantage (CA), Cost Leadership Strategy, Differentiation Strategy, Hybrid Strategy, Innovation Strategy, Strategic Management, Knowledge Management (KM), SWOT.

ABSTRACT. Strategy is an organization's action plan to achieve the mission. Each strategy provides an opportunity for operations managers to achieve Competitive Advantage (CA). CA implies the creation of a system that has a unique advantage over competitors. Improving researches, economic prosperity and quality of products can be considered as CA abilities through each company. CA is used for acquiring superior position in the world from different angles of science, economics and technologies. Generally, CA considered as strategic management or paradigm management. Hence, the performances of organizations or manufactures are pertained to the relevant theories from CA that is crucial points to compete and take advantage from the new technology. Since competitiveness is accounted as a fundamental role in industrial activities for achieving goals. Moreover, successfully growing a business is often dependent upon a strong competitive edge. The aim of this study is to collect information from the literature to seek the best strategy as CA for reducing cost, differentiating company and increasing efficiency.

1. INTRODUCTION

Essentially a Competitive Advantage (CA) answers the question, "Why should the customer purchase from this operation rather than the competition?" For some ventures, particularly those in markets where the products or services are less differentiated, answering this question can be difficult. A key point to understand is that a venture that has customers has customers for a reason. Successfully growing a business is often dependent upon a strong competitive edge that gradually builds a core of loyal customers, which can be expanded over time. Successful ventures perform a combination of business activities well, including marketing, production, distribution, finance, customer service, and/or other activities important to the enterprise. However, a CA is often a single key element that gives an edge to a business beyond what the competition has or does. Since competitiveness is accounted as a fundamental role in industrial activities for achieving goals, so governments and researchers have more intervened in the developing strategies. Additionally, improving researches, economic prosperity and quality of products can be considered as CA abilities through each company. In recent decade, scholars pursue to find the best strategy or formula for companies superiority in the global market. Many studies have been conducted regarding the effect of CA for companies. Therefore, the framework of CA should be contemplated more for research issues and its applications. In view of the lack of thorough use of sufficient CA, the area of concern for this study is to focus on describing competitive strategies that are fitted for companies.

2. LITERATURE REVIEW

2.1 Competitive Advantages (CA) Strategy

Recently, CA is used for acquiring superior position in the world from different angles of science, economics and technologies. This was mentioned by Ansoff *et al.* (1991) and later accomplished the definition by Porter (1985). Generally, CA considered as strategic management or paradigm management. Hence, the performances of organizations or manufactures are pertained to the relevant theories from CA which is crucial points to compete and take advantage from the new technology. Porter (1985) and Barney (1995) stated that CA strategy could be considered as valuable as an economic performance. While, hypercompetitive model versus of sustainable CA can be as a powerful strategy for higher performances (D'Aveni, 1994).

In addition, Sargent (2008) determined that CA is the capability of the competitors to gain more profits by giving more services and benefits to the customers. Since competitiveness is accounted as a fundamental role in industrial activities for achieving goals, so governments and researchers have more intervened in the developing strategies. Additionally, improving researches, economic prosperity and quality of products can be considered as CA abilities through each company. Therefore, the framework of CA should be contemplated more for research issues and its applications. Recently, many companies and manufactures are in the same level of CA strategy as the performance. Therefore, utilizing nanotechnology in the process of competition in the future is very sustainable to the big companies or manufacturers. Halawi *et al.* (2006) noticed that the competition of industries is based on five forces: new products, giving more services, replacing products or services, and trickery works through competitors. While, the best way to reach the competition in the global market is deducing planning and developing core of competition. Hence, knowledge management (KM) can support CA as a major factor in competition of global market. In fact, KM helps to produce new strategies for CA. So, the mentioned five forces can be obtained through KM by SWOT (Strength, Weakness, Opportunity and Threat) analysis from internal weaknesses and external threats. Porter (1985) was mentioned five forces model two decades ago which dominated on the SWOT analysis. This model has planned on the base of five forces as the threats of new competitors, the capability of competitors like promotion, quality, or lower price, replacing products by innovation, supplying new products with new technology, and jockeying within competitors.

In addition, Halawi *et al.* (2006) emphasized more about influencing KM on CA. For instance, internal strength of firms exploits more from external circumstances and neutralizing environmental threats. In addition, the firm would be followed CA strategies for reducing internal weakness versus of competitors. Another strategy of CA is based on the theory of resource based view (Wernerfelt, 1984) which has been focused on firm resources and capabilities for growth of performance. In addition, Barney (1991) proposed that companies should employ strategies which can create more values, rarely imitable. Moreover, this theory focused on the strategies for sustainable CA. Hence, more practitioners used this theory for sustainable CA for producing high profits, non-substitutable and imitable products. Further, Barney (1991) propounded four criteria in order to assess sustainable CA through the products which are 1) Creating value for consumers, 2) Variety compared with competitors' products, 3) Inimitability, 4) Substitutability.

In general, CA is as a strategy that actually is pertained to SWOT from outside and inside of organization to achieve the goals of company (Barney, 1995). A company's CA defines, relative to its competitors, the set of customer needs that it seeks to satisfy through its products and services. A company can choose a suitable CA in order to complete among other competitors. There are different strategies that a company can be set based on its situation.

2.1.1 Strategic Groups

According to Kessler and Charles (2007), estimating the position of a company through itself can affect its success in the future. Hence, the leader of company should reflect to the factors like existing opportunities, competition strategies, the best model of business, and modifying processes. Therefore, the function of R&D can determine to find the best solution for competition. The most

goals of company are to gain more profits from flourishing way. Hence, finding new features cause to invest in R&D when the firm can enlarge that time by having more income without market sharing. Therefore, company should be considered the opportunities and potentials of markets as well as flexible strategies (Kessler & Charles, 2007).

The majority categories of CA are cost saving, concentration and differentiation (porter, 1985). In general, the firms can be classified according to Porter's (1996) generic strategies. Porter (1985) offered a model which is viewed in three different strategic groups namely differentiation, cost leadership, and focus strategies. It can be considered as a framework strategy within different industries and companies. Also, porter's generic strategies and competitive facets can be determined variety clusters among the competitors in specific industry or market (Fig.1). In addition, different strategies would be considered in different areas for the research issues. Consequently, selecting strategy would be depended on the firm's competitors. If the firm is able to deliver lower cost services and products compare to other competitors, it has a CA.

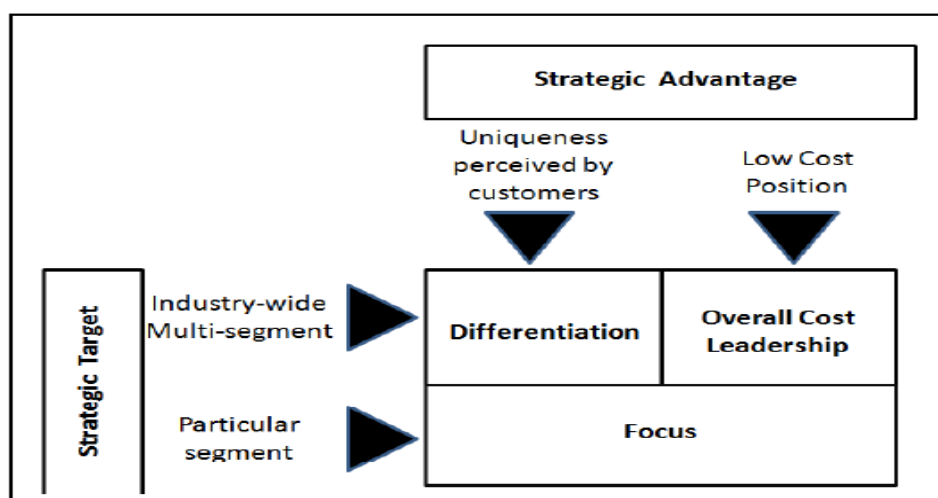


Figure 1: Porter's Three Generic Strategies
Sources: Bambang Baroto *et al.* (2012)

2.1.2 Defensive Strategies

Defensive strategy is another way to improve a CA for a business to use. One of the advantages of utilizing this strategy is to make distance between business and from its competition by keeping a CA. On the other hand, this strategy is very closely to cost leadership and differentiations in case of both methods are used by businesses to keep those advantages where once they have been gained but they are more aggressive in nature. The actual advantage of defensive strategies is increasingly difficult for in completion area to recommend real opposition to the business (Slack & Lewis, 2008).

2.1.3 Alliances

According to Slack and Lewis (2008), businesses can increase the CA; it means that business tries to find strategic alliances with other businesses in same or related industries. The connection of collusion and alliances should not to be irritated by businesses. Therefore, when businesses within the same industry work together, the collusion occurs to control prices artificially. On the other hand, strategic alliances are alongside these lines that businesses utilize it to pool resources.

2.1.4 Competitiveness Framework

The effect of the digital economy in some businesses is new. In industry, radical changes can be introduced by the presence of new business models and constant repeated changes in markets (Deise *et al.*, 2000). The nature of competition also changes very quickly (Choi & Whinston, 2000). Meanwhile, the core of business has not been changed by digital economy of most firms. Nowadays, the business circumstances are viewed very complex, competitive, and continuously

changing in terms of increasing demands (Cognizant, 2009). In this demanding atmosphere, constant success and CA are going to be achieved in this challenging situation. Therefore, organizations have to change the way that influences on their supply chains. The most successful organizations are trying to supply effective ways to reduce the costs by using supply chains (Cognizant, 2009). It is also presenting greater customer service and accomplishing perfect order. In the universal marketplace, these modern businesses are managing the complexities as well as challenging effectively. According to Turban *et al.* (2006), in industry, any organization try to find a CA, it means that quality, cost and speed are the advantages over competitors. He also proposed that CA is more essential in the digital economy in compare to the old one. In fact, a core of organizations' failure and success is CA (Porter, 1996; Porter, 1985); quality, cost and speed try to find, lead and control the market in larger-than-average profits.

In addition, the term of competition refers to the capability and the ability of a company or industry to bring products or services to markets based on nanotechnology. Revenues, trade, and market share are some indices of competitive assessments (Sargent, 2008). Today, the world is indicating with the high and continues speed of change. It is also a considerable demand in the existing market for the various goods and services that end up to the extensive competition between different industries and companies. Mostly the competitiveness of each company relies on the competition between the companies through the industry. Although the competitiveness of economy not only depends on the average and collective of competitiveness between the firms, it also relates to other critical issues as well. Competitiveness is a relative concept, it will be more important when it uses for the international market. Therefore, it indicates the capabilities of a firm to create more profit in comparison with its competitors in the market, more wealth, more value, more revenue through its ability (Shurchuluu, 2002).

The interaction between product market and capabilities of firm would be contemplated as abilities of firm like physical infrastructure, technology, financial ability, and work forces. Also, they can assist transferring the asset to the products and services. At the framework, the quality indicates that product and services come out to the market due to the global standardization; meanwhile innovation can bring new ideas to the market. The competitiveness framework should be supported by another suitable collection of resources that is name economic structure (Fig.2) (Shurchuluu, 2002).

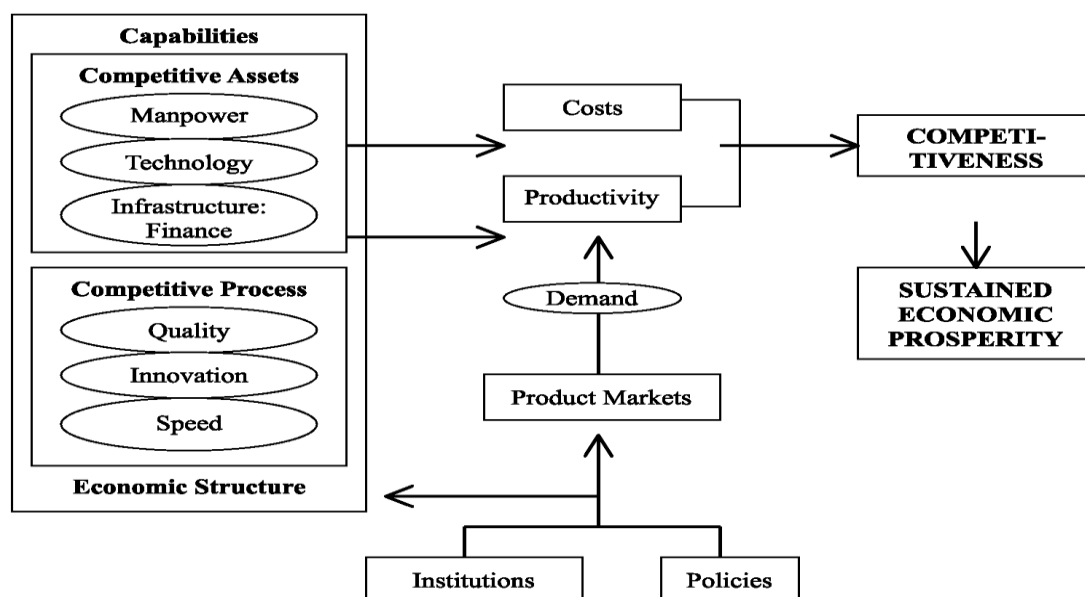


Figure 2: Competitiveness Framework
Source: Shurchuluu (2002)

Now, businesses are always trying to find competition in marketplaces. Business has many different ways to do this, but all ways are not true and focuses on a few tried on wrong methods to achieve an opportunity in the competition. Four different primary categories are being classified base on these

methods. The foundation of understanding how businesses try to compete is narrowed and broad by the University of Cambridge cite Michael Porter's and Stanford University. In addition, economical changes, improving services and goods have caused to compete in the global markets (Table1). Actually, competitiveness is viewed as stimulation of economic prosperity. Hence, the following formula is considered as "World Competitiveness Formula":

[Competitive Assets x Competitive Processes]= World Competitiveness

Table 1: Globalization (Competitiveness Factors)

Competitive Assets	Competitive Processes	World Competitiveness
Infrastructure	Quality	Market Share
Finance	Speed	Profit
Technology	Customization	Growth
People	Services	Duration

Source: Shurchullu (2002)

2.2 Cost Leadership Strategy

According to study of Bambang Baroto *et al.* (2012), the formation of cost leadership strategy is depended on the set of activities which can produce products or service for customer satisfaction by the lowest price through the competitive advantage strategy and performing value chain. In addition, this study confirmed that processing of cost leadership strategy is pertained to value chain activities and their efficiencies. For instance, Air Asia and Walmart are successful companies which have profited more from employing cost leadership strategy. Additionally, the first CA of a business is as cost leadership which often tries to be achieved (Porter, 1985). Cost leadership has many advantages. Especially, a company seeks ways to produce cheaper goods in an effective and better way respect to competitors' products or services, as well as a business compromises the same quality product as a participant in lower price are instances of cost leadership. It has also known as attacking strategy, when companies try to overcome other competitors by using price strategies steadily that designed to win.

According to Porter (1985), cost leadership is considered as a category of CA. The quality and reducing cost of a product can be considered in cost leadership for taking advantage the different situation among competitors. The cost leadership can affect in the cost drivers as having high position. Although the cost leader can suggest the price close to average of cost, the cost leadership leads to profit of average which can be vied as the quality with competitors. In general, Porter (1985) believed that differentiation is a necessary factor to get cost leadership, while cost drivers are depended on activity like understand, control and analyze the following concepts:

- **Scale.** For measuring activities, the strategies should ascertain proper scale.
- **Learning.** The organization should attempt to learn some frames to its forces as learning process to compete with other firms.
- **Capacity Utilization.** Controlling expenditures can be controlled by leveling it.
- **Linkages.** When the cost of goods is reduced, linkages are divided in the chain.
- **Interrelationships.** Sharing activities can cause to reduce the cost.
- **Integration.** The feasibility of integrating or de-integrating should be tested in the determined periods.
- **Timing.** The first or the end action is very important to distinguish activities in the especial time.
- **Policies.** The confirmation of reducing cost or differentiation should be considered as major policies in competition
- **Location.** As an individual action, it should be optimized to consistent with other components.
- **Institutional Factors.** The organizational factors should be tested for recognizing of potentials from specific institution (Porter, 1985).

In addition, from manufacturing to wholesale section of market, the necessity of reducing cost is obvious, it is occurred because of the rarely presentation of recessions in industry. On the other

hand, the investment and cost saving in macro level is focused much more than at the micro level by the most companies (Cognizant ,2009). Hence, the major problem of some firms is to find ways to compete (Turban *et al.*, 2006). In addition, Turban *et al.* (2006) stated that an important advantage of strategy is exploiting from stored time as sustainability. Moreover, Barney and Hesterley (2011) presented that the strategy of cost leadership can be impacted in competitions for taking advantages from overpriced and less reproducing.

2.3 Differentiation Strategy

Differentiation is due to the strategies that can produce high capability in competitiveness in the different stage of life cycle of company. Then, it is noticeable to SWOT analysis continuously from the company to tailor proper strategy for the company. Therefore, it has been accounted as a key role in the commercial success for the company in the future. The firms which have investment in R&D research can be in competitiveness via patents and profits from new products and features (Kessler & Charles, 2007). As a matter of fact, differentiation strategy would be used to build CA respect to competitors (Bambang Baroto *et al.*, 2012). However, it can create value to customers by supplying high quality products or services as well as creating brand image in the customer's mind. In fact, this strategy causes to use innovation through the companies to produce new products or services to achieve CA in the markets. Further, there are different ways from differentiation strategy (Table 2).

Table 2: Examples of Differentiation Strategy

Differentiation Strategy	Companies
By brand	Harley Davidson, Mercedes Benz
By design	Titan Watches with Gold Studden
By positioning	Gems,
By technology	Diamonds and Precious Metals
By innovation	Domino Pizza (30 minutes delivery)
	Apple Computers
	3M

Source: Bambang Baroto *et al.* (2012)

Generally, if the firm's product quality is satisfactory, firms will change to higher boundaries and returns. Therefore, "differentiate" is to obtain an advantage for firms. In other word, differentiation leads them to proposing desired and unique things, as well as translates into a best price. In fact, this will cause higher boundaries and performance. In addition, Porter (1985) proposed that the second strategy is differentiation from the competitors of the company. Low cost factor is not effective in a differentiation strategy. In addition, Grant (2004) posited that the reduction of the cost and raising differentiation have become as a system from innovations, process innovations, improving quality, and product innovations. In addition, Oskarsson and Sjoberg (1994) believed that the differentiation as well as cost leadership couldn't be viewed as conflicting strategies.

One or more marketable characteristics can differentiate one business from their competitors. Then, the business of the firm tries to find the section of the market that those characteristics are important and marketable to them, or business may conduct a research to find out which goods are essential for consumers and to develop the products for the market. According to Ehmke (2010), CA strategy is more profitable method toward the companies that have produced more services, lower prices, and extra benefits to the customers. The differences of the performance in the time cause to considering CA strategy with the higher efficiency to get niche in the global markets (Ehmke, 2010). For example, KM is considered as an important resource of company that can be less imitated by the competitors. Therefore, resources should be unique for influencing more in the global markets. Porter (1996) suggested that formation of strategy from the firm would be focused more on the activities that can distinct from competitors. For instance, product strategy should be used up KM for make product decisions.

2.4 Hybrid Strategies

Bambang Baroto *et al.* (2012) confirmed that employing hybrid strategies through the cost leadership and differentiation strategies simultaneously can be considered as an important strategy to build CA in the global market. Also, this study emphasized that a business can be successful, if it can produce more profitable products or services which give more value to customers. In addition, it presented that differentiation strategy causes to determine premium price of product for the company as well as cost leadership strategy causes to charge company in the lower price of products to make CA respect to competitors. Then, the business can achieve to CA by using product features and the lowest price. The hybrid strategies can apply in different situations namely developing, transition and developed, and retail business.

2.5 Innovation Strategy

A company has a plan from R&D to develop new features/products to attain its goals (Kessler & Charles, 2007). New technology is considered as innovation which can cause to differentiation business in the global market. In addition, it could be presented that advanced steps in problems like global warming and scarcity energy in the future can be solved by contemplating nanosciences for producing new sources or products. In addition, new products of communications like hand phone, Laptop, and the tools of the internet are depend on nanotechnology (Kessler & Charles, 2007). Hence, nanotechnology is employed in different industries e.g. aerospace, communications, energy, food and medicines. As a result Kessler and Charles (2007) confirmed that the energy sector or other business of nanotechnology is not still commercialized to date. According to this study, most of companies in nanotechnology use CA strategy to stay in the competition of the global markets. The investment should be employed in R&D system for innovation and CA strategies in the future. Innovation strategy causes to reveal differentiation in competitiveness. Moreover, nanotechnology can be helpful for this ways as a science and knowledge. It has very popular from different aspects, even as producing in small size and molecular views. Cost leadership is influenced by innovations through nanotechnology in order to create differentiation in the global markets. Besides, nanotechnology products can be used in productions of industries. Moreover, cost leadership strategy can be affected by innovation and CA strategies; but there are some problems to use this strategy to achieving CA as lower price. It would be useful from reducing costs and prices to added value.

3. SUMMARY

In general, competition is the name of the game, so organizations try to find a supportable improvement of CA. According to Kinicki and Williams (2006), CA is “the ability of an organization to produce goods or services more effectively than competitors, thereby outperforming them.” Thus CA is not talk about differences. This competitive is reached when the organization enhance real value to the customers. So the expanse of organization resources is required, it means that resources of the companies must be used more efficiently. Meanwhile, the innovation and cost saving also must be accrued in companies. Through the using of two strategies i.e. differentiation and cost leadership strategies, sustainable CA also can be developed (Porter, 1985). As mentioned before, Momaya (2011) proposed that the firms should to drive investment in innovation and technology development. However, it is noticed that the competitive strategy can be considered to attain the goals of company, but it should be approximately difficult. Then, the strategy can be developed by innovating and mixing different approaches and tools. Consequently, innovations of a firm would origin to be flexible in strategies as competitiveness. Based on cost leadership, according to Kleiman (1999), in competition environment, the production and services of firms must be in a lower cost of its competitors. Also, in a differentiation strategy “when a firm produces a product or service that is preferred by buyer and this can happen by improving quality of the product or services better than its rivals, or providing innovative products or services that are not offered by its competitors”(Al-rfou and Trawneh ,2010).

One or more marketable characteristics can differentiate one business from their competitors. Then, the business of the firm tries to find the section of the market that those characteristics are important and marketable to them, or business may conduct a research to find out which goods are essential for consumers and to develop the products for the market. According to Ehmke (2010), CA strategy is more profitable method toward the companies which have produced more services, lower prices, and extra benefits to the customers. The differences of the performance in the time cause to considering CA strategy with the higher efficiency to get niche in the global markets (Ehmke, 2010). For example, KM is considered as an important resource of company which can be less imitated by the competitors. Therefore, resources should be unique for influencing more in the global markets. Porter (1996) suggested that formation of strategy from the firm would be focused more on the activities which can distinct from competitors. For instance, product strategy should be used up KM for make product decisions.

References

- [1] Al-rfou, A., & Trawneh, K. (2010). To What Extent Can a Company Achieve a Competitive Advantage Through Job Development? *Accounting and Business Department, Tafilah Technical University, Tafilah, Jordan*, 23(3), 189–196.
- [2] Angelo, K., & Brian, W. (n.d.). *Management: A Practical Introduction* (2nd ed.). The McGraw-Hill Companies.
- [3] Ansoff, I., Lindsey, L., & Beach, S. (1991). *Implanting Strategic Management*. (2nd, Ed.) (p. 500). Prentice Hall PTR.
- [4] Bambang Baroto, M., Bin Abdullah, M. M., & Wan, H. L. (2012). Hybrid Strategy: A New Strategy for Competitive Advantage. *International Journal of Business and Management*, 7(20). doi:10.5539/ijbm.v7n20p120
- [5] Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99–120. doi:10.1177/014920639101700108
- [6] Barney, J. B. (1995). Looking inside for competitive advantage. *Academy of Management Perspectives*, 9(4), 49–61. doi:10.5465/AME.1995.9512032192
- [7] Barney, J. B., & Hesterly, W. S. (2011). *Strategic Management and Competitive advantage* (4th ed., p. 404). Prentice Hall.
- [8] Choi, S.-Y., & Whinston, A. B. (2000). *The Internet Economy: Technology and Practice* (p. 376). SmartEcon Publishing.
- [9] D'aveni, R. A. (1994). *Hypercompetition: managing the dynamics of strategic maneuvering* (1st ed., p. 448). Free Press.
- [10] Deise, M. V, Nowikow, C., King, P., & Wright, A. (2000). *Executive's Guide to E-Business: From Tactics to Strategy* (1st ed., p. 352). Wiley.
- [11] Dess, G. G., & Davis, P. S. (1984). Porter's (1980) Generic Strategies as Determinants of Strategic Group Membership and Organizational Performance. *Academy of Management Journal*, 27(3), 467–488. doi:10.2307/256040
- [12] Ehmke, C. (2010). *Strategies for Competitive Advantage* (p. 8).
- [13] Ellis, B., & Calantone, R. (1994). Understanding competitive advantage through a strategic retail typology. *Journal of Applied Business Research*, 10(2), 23–32.
- [14] Grant, R. M. (2004). *Contemporary Strategy Analysis* (Fifth., p. 548). Blackwell.

-
- [15] Halawi, L. A., McCarthy, R. V., & Aronson, J. E. (2006). Knowledge management and the competitive strategy of the firm. *The Learning Organization*, 13(4), 384–397. doi:10.1108/09696470610667751
- [16] Kessler, E. H., & Charles, M. (2007). Strategic implications of nanotechnology. *Business Strategy Series*, 8(6), 401–408. doi:10.1108/17515630710684619
- [17] Kinicki, A., & Williams, B. (2006). *Management: A Practical Introduction* (2nd ed., p. 512). McGraw-Hill/Irwin.
- [18] Kleiman, L. (1999). *Human Resource Management: A Managerial Tool for Competitive Advantage* (2nd ed.). Cengage Learning.
- [19] Momaya, K. (2011). Cooperation for competitiveness of emerging countries: learning from a case of nanotechnology. *Competitiveness Review: An International Business Journal Incorporating Journal of Global Competitiveness*, 21(2), 152–170. doi:10.1108/10595421111117443
- [20] Oskarsson, C., & Sjöberg, N. (1994). Technology analysis and competitive strategy: the case of mobile telephones. *Technology Analysis & Strategic Management*, 6(1), 3–20. doi:10.1080/09537329408524149
- [21] Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance* (p. 557). NY: Free Press.
- [22] Porter, M. E. (1996). What Is a Strategy? *Harvard Business Review*, 45–59.
- [23] Sargent, J. F. (2008). *Nanotechnology and U.S. Competitiveness: Issues and Options* (p. 25). United States Congressional Research Service.
- [24] Shurchuluu, P. (2002). National productivity and competitive strategies for the new millennium. *Integrated Manufacturing Systems*, 13(6), 408–414. doi:10.1108/09576060210436650
- [25] Slack, N., & Lewis, M. (2008). *Operation Strategy* (2nd ed.). Financial Times Prentice Hall.
- [26] Turban, E., King, D., Lee, J. K., & Viehland, D. (2006). *Electronic Commerce 2006: A Managerial Perspective* (p. 832). International edn, Prentice Hall, Upper Saddle River, NJ.
- [27] Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), 171–180. doi:10.1002/smj.4250050207